

**State of Indiana**  
**Wastewater State Revolving Fund (SRF) Loan Program**  
**INTENDED USE PLAN**

**State Fiscal Year 2003**

**I.**

**Introduction**

In accordance with Sections 603(g), 606(c) and 216 of the Clean Water Act, the State of Indiana, acting through its Department of Environmental Management ("Department") and the State Budget Agency ("Budget Agency"), hereby submits to the United States Environmental Protection Agency ("EPA") and the public this Intended Use Plan ("IUP") for State Fiscal Year 2003, together with:

1. Project Priority List (Appendix A).
2. Project Ranking System (Appendix B).
3. Non-Point Source Program (Appendix C).
4. Intended Uses of Funds (Appendix D).
5. Ranking and Scoring of Non-Point Source Projects

This plan identifies the uses of the fund and how they support the goals of the SRF Program. It also will support the State's upcoming grant application to obtain additional capitalization grant awards, which is presently an estimated \$30 million for Federal Fiscal Year ("FFY") 2003 funding.

This Intended Use Plan, including the Project Priority List and Project Ranking System has been subject to public review and comment, as described in section VI. A. below, in accordance with the Clean Water Act.

**II.**

**Definitions**

Terms used in this document have the following respective meanings ascribed to them:

**Clean Water Act** means the Clean Water Act of 1972, as amended and supplemental codified at 33 United States Code Section 1251 et seq., and the rules and regulations promulgated thereunder.

**Federal Capitalization Grants** mean grants made by EPA to the State to capitalize the SRF.

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State of Indiana Wastewater State Revolving Fund  
SFY 2003 Intended Use Plan

**Fiscal Year or SFY** means the State's fiscal year for the year indicated. In Indiana, the fiscal year begins on July 1 and ends on the next succeeding June 30. For example, State Fiscal Year 2003 (SFY 03), to which this Intended Use Plan applies, begins on July 1, 2002 and ends on June 30, 2003.

**Guarantee Revenue Bonds** means one or more series of revenue bonds issued from time to time by the State Issuer to fund the SRF Program. Federal capitalization grants provide security for, and the SRF is the source of revenue for the payment of Guarantee Revenue Bonds. Guarantee Revenue Bond proceeds are loaned to political subdivision to finance their proposed projects.

**Nonpoint Source** means any Section 319 of the Clean Water Act and Indiana Non-Point Source Management Plan type project which serves to ameliorate water quality problems.

**Political Subdivision** means a municipal corporation (which includes any separate local government that may sue and be sued), special taxing district, including any sanitary/conservancy district, or a regional water, sewer, or waste district, and other political subdivisions as more specifically described in Indiana Code 13-11-2-164.

**Priority List, Project Priority List and PPL** each mean the Project Priority List prepared pursuant to Section 216 of the Clean Water Act. See Appendix A.

**Proposed Projects** means the proposed wastewater projects and other projects proposed by Political Subdivisions for SRF financing.

**Proposed Wastewater Projects** means the wastewater treatment projects qualifying as such under Section 212 of the Clean Water Act and proposed by Political Subdivisions for SRF financing in SFY 2003.

**Ranking System** means the Project Ranking System, a quantitative model by which the Department evaluates and ranks Proposed Wastewater Projects for listing on the Priority List. In brief, Proposed Wastewater Projects are ranked according to their impact on water quality and public health. Proposed Wastewater Projects are given priority over all other proposed projects. A similar Ranking System is proposed for Nonpoint Source SRF projects.

**SRF** means the Wastewater State Revolving Fund pursuant to the Clean Water Act and State Law and includes the accounts and subaccounts described in Appendix D.

**SRF Program** means the Wastewater State Revolving Fund Loan Program.

**State Issuer** means the Indiana Bond Bank or other permitted State-level issuers of Guarantee Revenue Bonds and State Match Revenue Bonds.

**State Law** means Indiana Code 13-18-13-1 et seq. With applicable definitions at Indiana Code 13-11-2 and the rules and regulations promulgated thereunder.

**State Match** means the State's commitment to provide matching funds equal to 20 percent of each federal capitalization grant for the SRF.

**State Match Revenue Bonds** means one or more series of revenue bonds issued by the State Issuer as needed to fund the state match. State Match Revenue Bond proceeds may be loaned to political subdivisions to finance their proposed projects or may be used to fund administrative expenses and/or the Guarantee Reserve Account.

### **III.**

#### **Project Priority List**

##### **A. Introduction**

The Project Priority List for State Fiscal Year 2003 (SFY 2003) is set out in Appendix A. The Priority List includes all proposed wastewater projects

##### **B. Publicly—Owned Treatment Works Projects**

Exclusive of loans expected to be completed prior to start of SFY 2003, 57 political subdivisions have proposed wastewater projects for SRF financing in SFY 2003. These proposed wastewater projects are estimated to seek financing in the aggregate amount of approximately \$464 million and are ranked on the Priority List in accordance with the Project Ranking System.

Proposed projects may also be added during Priority List updates, as provided for in the Project Ranking System. For proposed projects to be added, a political subdivision must submit a completed SRF application to the Department. Wastewater projects added during these updates will be placed unranked at the bottom of the PPL, after providing the public an opportunity for input.

### **IV.**

#### **Project Ranking System**

The Wastewater Project Ranking System is set out in Appendix B. IDEM has worked to develop a ranking system for Nonpoint Source projects. We hope to use this ranking system, detailed in Appendix F, to score eligible projects.

## V.

### **Intended Use Plan**

#### **A. Goals and Objectives**

For purposes of this Intended Use Plan, long-term goals and objectives are those which the State does not expect to achieve fully in this fiscal year while short-term goals and objectives are those the State does expect to achieve this fiscal year.

##### **1. *Short-Term Goals and Objectives***

During SFY 2003, the Department and the Budget Agency expect to work towards achieving the following short-term goals and objectives.

(ST1) Work diligently with communities and effectively manage SRF projects to assist in getting communities to the point of loan closing and to begin construction in a timely, efficient manner.

(ST2) After additional federal funding becomes available (which is expected by October 1, 2002), seek the immediate award of the federal capitalization grant for the FFY 2003. (Through disbursement of loan proceeds and administrative expenses, the State expects that all the federal capitalization grants through and including that related to FFY 2003, will be converted to cash and deposited in the SRF in SFY 2003.)

(ST3) Prior to the October 1, 2002 sunset date under the federal Safe Drinking Water Act for permitted transfers between the Wastewater SRF and the Drinking Water SRF, assess whether transfers made will be permanent and whether additional transfers will be made prior to the October 1, 2002 deadline. Upon such determination, the Budget Agency will implement such actions. (The State expects to encourage EPA to effectuate changes in the Safe Drinking Water Act to permanently extend such sunset date and in the event it is extended, the State will review and determine the amount of permitted transfers which can be made from the Wastewater SRF to the Drinking Water SRF to continue meeting the financing needs of the Drinking Water SRF without materially changing the ability of the Wastewater SRF to meet the financing needs of the proposed projects for SFY 2003. Upon such determination, the Budget Agency would implement such transfers.) (Absent a change in the Safe Drinking Water Act, the State would not expect that further transfers will occur after September 30, 2002)

(ST4) Continue working with the EIWG and various other wastewater infrastructure financing agencies/departments to coordinate the financing of wastewater treatment works in the most beneficial way for communities, while continuing to meet the needs and requirements of each financial assistance program.

(ST5) Continue to examine the program to find potential areas of streamlining.

(ST6) Produce an Indiana SRF report for public distribution containing EPA requirements, SRF activities and communities involved with the program.

(ST7) Develop a plan to market Nonpoint Source SRF funding opportunities to communities.

(ST8) Continuously update a post-loan origination management manual and implement activities related to the same.

(ST9) Develop and implement a project tracking system to monitor PER review, to follow SRF projects from cradle to grave, and to evaluate the use of staff resources.

(ST10) Continue to encourage projects to draw down on their loans or cut-off ability within a year after substantial completion of construction if additional draws are not expected.

(ST11) Inform the public and make use of Wastewater SRF funds to implement security measures at Wastewater Treatment facilities.

(ST12) Develop a plan to market the SRF point source program to specific, targeted communities including; Combined Sewer Overflow communities, communities in enforcement, and those facing sewer ban.

(ST13) Continue to provide opportunities for Communities to fund preparation of Long Term Control Plans through the SRF program.

## **2. *Long-Term Goals and Objectives***

The primary goal of the SRF Program is to improve water quality within the State of Indiana. This primary goal is supported by the following long-term goals and objectives.

(LT1) Provide financial assistance to political subdivisions to help them comply with federal and State water quality standards. It is the State's policy to satisfy as many wastewater treatment needs as possible by providing low-cost financing, commensurate with prudent fiscal and credit standards.

(LT2) Secure Indiana's full share of federal funds made available in the annual federal budget and/or with the reauthorization of the Clean Water Act, and to expeditiously obligate these funds for wastewater treatment works, and possibly non-point source, projects.

(LT3) Maintain the financial integrity of the SRF over time by a judicious use of its assets and by realizing an adequate rate of return to sustain the SRF in perpetuity.

(LT4) Establish a Nonpoint Source component to the SRF program in the order to address the funding of SRF Nonpoint source projects.

(LT5) Continuously update procedures manual and develop a tracking system to follow projects from cradle to grave.

## **B. SRF Activities**

### **1. Project Categories**

The State expects to use the SRF to finance the planning, design and construction of the following project categories under Section 212 of the Clean Water Act.

<b>Category</b>	<b>I</b> Secondary Treatment	<b>IVA</b> New Collection Systems
	<b>II</b> Advance Treatment	<b>IVB</b> New Interceptors
	<b>IIIA</b> Infiltration/Inflow Correction	<b>V</b> Combined Sewer Overflow
	<b>IIIB</b> Major Sewer System Rehabilitation Correction	

### **2. Program Changes**

The SRF Program intends to develop a Combined Sewer Overflow Long Term Control Plan loan program whereby communities that must prepare Long Term Control Plans may apply for a loan for the costs incurred in preparation of Long Term Control Plan. Security funds are now available for security improvements at wastewater treatment plants. The State intends to fund Nonpoint Source to eligible entities.

### **3. Status of the Fund**

**Introduction.** Federal funds (EPA Capitalization Grants), leveraged funds (Guarantee Revenue Bond proceeds) and State funds (State Match Revenue Bond proceeds) are used to capitalize the SRF Program. The majority of the bond proceeds are, in turn, loaned to participants for eligible projects. The SRF Program receives its Capitalization Grants to serve as "security" for Guarantee Revenue Bonds issued by the State Issuer and loaned to SRF participants (and earnings on the same serves as a "source of payment" for Guarantee Revenue Bonds and State Match Revenue Bonds issued by the State Issuer).

By the commencement of SFY 2003, the State expects to have closed loans aggregating approximately \$930 million. Many of these loans will only be partially drawn at the start of SFY 2003, and the State expects that SRF funds will continue to be drawn to fund the projects associated with these closed loans.

In addition to the funding needs of closed loans, the State expects to continue making SRF financing available for new projects as SRF resources are reasonably available in the sole judgement of the State.

**Loan Dollars Available.** During SFY 2003, the State intends to provide funds to continue meeting existing loan commitments and to make additional loans for new projects by causing additional Guarantee Revenue Bonds and State Match Bonds to be issued by the State Issuer. The issuance of these bonds will occur as, when, and in amounts that are necessary for the State to meet the cash flow borrowing needs of existing and new loans. Binding commitments are only made from the SRF if and when a financial assistance agreement is entered into with a participant.

By leveraging grants awarded for FFY 1997 through 2002 under the financing structure the State utilizes, the State estimates that it could, in aggregate, generate loanable funds (including both loans already made and future loans) of about \$1.25 billion. The State expects to seek (and be awarded) a FFY 2003 capitalization grant that will provide it with further lending capacity in SFY 2003. The capacity associated with yet-to-be awarded grants is not reflected in the foregoing number but, generally, would be expected, if awarded, to result in ability to create loanable funds of approximately 2 times the amount of a grant (i.e., a \$30 million grant should allow SRF to make \$60 million of additional loans).

The maximum amount of funding ultimately available for loans will depend on:

- demand for the SRF Program as evidenced by Proposed Wastewater Projects;
- the readiness-to-proceed on the part of those projects as evidenced by completion of a PER and other steps necessary to securing a program loan within SFY 2003; and
- the capacity of the SRF to issuance additional Guarantee Revenue Bonds and State Match Revenue Bonds to generate additional loanable funds, which requires sufficient cash flows to repay them (including from earnings on funds securing them -- primarily being Capitalization Grants including the yet-to-be awarded FFY 2003 grant -- and existing and new loan repayments).

During SFY 2003, through additional bond issues, the State expects to be able to meet the needs of participants in the SRF Program that will be in a position to close loans during SFY 2003. The State's SRF Program is an established and highly rated borrower in the national bond market, and has issued several series of Revenue Bonds having issued approximately \$891 million in bonds to finance the Wastewater SRF Program. These bond issues have provided the needed state match funding, and have included approximately \$891 million for loans. By the beginning of SFY 2003, the State expects that, when fully disbursed, aggregate loans made will be approximately \$930 million. (The foregoing estimate reflects a certain volume of loan closings during the remainder of SFY 2002 and if not made, such loans would then be expected to be closed in SFY 2003. It also assumes that there will be certain allocations of on-hand bond proceeds between the Wastewater SRF and the Drinking Water SRF Program, which until August 1, 2002, the State retains the flexibility to reconsider the amount allocated to each. This level of loan commitments is expected to exceed loanable bond proceeds presently on-hand in the SRF ("Excess Commitments") by approximately \$39 million. Future bond

issuances are expected to be used to fund these Excess Commitments together with new commitments related to new loans in SFY 2003. The balance of the bond proceeds, not available for loans, are used for reserve funds, administrative expenses, costs of issuance, etc.

**Loan Rates and Terms.** The State recognizes the continued need to balance the level of subsidy (that is, the cost of offering loans at below-market interest rates) with the inherent limited capacity of the SRF to meet demand for loans and community affordability constraints. This balancing is reflected in the State's present interest rate policy, which subject future change, if any, is reflected below.

The State now uses a fixed rate scale (which varies based on 3 ranges of average monthly user rates for an equivalent dwelling unit (User Rates) within each of the 3 previously existing MHI Tiers to set SRF interest rates. The result is 9 possible SRF interest rates -- see the below Chart. Lower rates are targeted to participants with lower MHIs and/or those with higher User Rates. These User Rate ranges blend into the State's Supplemental Fund benchmarks for assistance (\$65 per month for WW).

<i>WWSRF -- Interest Rate</i>	<i>User Rates (Over \$50)</i>	<i>User Rates (\$30 to \$50)</i>	<i>User Rates (Under \$30)</i>
Tier III (MHI: under \$24,994)	2.9%	3.1%	3.3%
Tier II (MHI: \$24,994 to \$31,241)	3.6%	3.8%	4.0%
Tier I (MHI: over \$31,241)	4.1%	4.3%	4.5%

\* Current MHI (which will be automatically changed after 2000 census data is available).

User Rate information is reviewed by the Budget Agency for use in finalizing an SRF interest rate. Participants are asked to have their local rate consultant complete this before a rate ordinance is adopted at the local level.

In the past, when participants had outstanding debt, they often wrapped new SRF debt service around the old debt so that aggregate debt service was level. Now, wrap SRF loans with over a 14 year weighted average principal maturity will be charged 20 additional basis points to help off-set the additional subsidy they afford. This rate surcharge will also apply to grandfathered rates. The Budget Agency will have discretion to waive the extra charge for participants in the lowest MHI range that are in the highest User Rate category. Additionally, any participant proposing to use a wrap structure will be required to justify it (including showing a substantial effect on User Rates) before it can be used.

The State's current policy is that non-Political Subdivisions will receive loans at a rate that is no lower than a Political Subdivision's SRF rate as expressed above. However, the Budget Agency may determine "what is necessary" to make a project viable and thereby charge a higher interest rate than what would be available for an SRF loan to a Political Subdivision.

The foregoing is the State's present interest rate policy. The Budget Agency expects to monitor SRF interest rate adjustments as appropriate. Adjustments to this rate structure may be made from time to time, but will not affect loans closed prior to the adjustment. The foregoing does not commit the State to make new loans on that basis.

As with all SRF loans closed to date, the State acknowledges that all future SRF loans will be made at rates at or below those prevailing in the market.

**Terms.** Consistent with applicable law, all SRF loans will be structured so that there is at least annual principal repayments (commencing one year after expected completion of the project) and a final principal payment no later than 20 years after expected completion of the project. Additionally, except in certain limited circumstances, such as where SRF debt service is wrapped around existing debt (and is justified on user rate affordability basis), the State expects debt service payments to be approximately equal in each year the loan is outstanding. The making of an SRF loan on any basis other than level, aggregate annual debt service is subject to additional State review and approval.

**Refinancing.** The State does not expect to refinance existing wastewater treatment projects; however it will consider refinancing, commensurate with federal and State law, where (i) a political subdivision is proposing a new wastewater treatment project that will result in a significant improvement in water quality and (ii) as a result of State law or other restrictions on the political subdivision (including existing bond ordinance, trust indenture or credit agreement provisions), a refinancing of the existing debt is necessary or convenient as a matter of law or prudent fiscal or credit policy.

**Fees, Expenses.** The State intends to use the maximum allowable percentage of each federal capitalization grant to offset SRF program costs, including administrative, legal and financial fees and expenses, to the extent permitted by Section 603(d)(7) of the Clean Water Act. Additionally, the State expects that political subdivisions participating in the SRF Program will be required to offset some of the costs of making and securing their loans, including the fees and expenses of bond counsel, SRF Program Counsel, and the cost of making appropriate municipal disclosures.

**Transfers to the Drinking Water SRF From the Wastewater SRF.** In past Intended Use Plans, the State retained the flexibility to permit transfers between the Drinking Water SRF and the Wastewater SRF of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. Presently, up to 33% of the amount of each Safe Drinking Water Act grant for FFY's 1997 through 2002 could be so transferred on a net cumulative basis. This means flexibility exists to re-transfer funds back to the Wastewater SRF from the Drinking Water SRF and visa versa until October 1, 2002. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2002, to date, approximately \$23.7 million has been transferred to the Drinking Water SRF from the Wastewater SRF.

Because the State expects that cumulative Drinking Water SRF loans in SFY 2003 would be at or near its lending leverage capacity (and expects the Wastewater SRF in SFY 2003 will not be constrained on a relative basis), subject to changes in the Safe Drinking Water Act, the State retains the flexibility to make transfers from the Wastewater SRF and the Drinking Water SRF in SFY 2003. Such transfers would be at times and in amounts determined by the Budget Agency to be most beneficial to the programs.

Each transfer would only be made between accounts established for like purposes (and subject to like restrictions) in the Wastewater SRF and the Drinking Water SRF and will be accounted for on a cumulative net basis. Consistent with prior transfers, the State would expect that transfers would be from funds held in its Restricted Subaccount of the Equity Fund (or other funds held in the SRF) and that such funds would be used to facilitate generating additional lending capacity under the leverage loan structure of the Drinking Water SRF. The State would not expect such transfers (which, if changes are made to the Safe Drinking Water Act to allow it, would be expected to be in the amount of 33% of its FFY 2003 grant, or about \$3 million) to have a material impact on the capacity of the Wastewater SRF to finance proposed projects during SFY 2003. Notwithstanding the foregoing, the State retains the flexibility to transfer undrawn Wastewater SRF grants and/or to fund direct Drinking Water SRF loans with transfers.

The State would expect to only make transfers as and to the extent that such could be done in a manner consistent with agreements related to outstanding Guarantee Revenue Bonds and State Match Revenue Bonds.

**Cross-collateralization of the Wastewater SRF with the Drinking Water SRF.** To the extent permitted by the Clean Water Act and the Safe Drinking Water Act (each as supplemented by applicable federal law), the State has cross-collateralized the Wastewater SRF and the Drinking Water SRF to optimize the capitalization requirements of each program and better manage the specific funding needs of projects assisted through them.

This cross-collateralization arrangement maximizes the security for bonds issued by the State Issuer to capitalize either the Wastewater SRF Program and the Drinking Water SRF Program. Accordingly, this could relate to and affect all types of moneys (and amounts) held in the Wastewater SRF and the Drinking Water SRF. The State would expect that any such transfers would occur at any time necessary to prevent a default on any such bonds and would be made between accounts established for like purposes (and subject to like restrictions). To date, no transfers of this nature have been made.

The State would expect to retain the flexibility to reimburse (on a cumulative net basis) any transfers made under a cross-collateralization arrangement. Because such a cross-collateralization arrangement is a contingent security concept and transfers are not expected or planned to occur, the State would not expect this to negatively impact the funding capacity of either the Wastewater SRF or the Drinking Water SRF. However, if

such transfers occur and are not reimbursed, it may affect the burdened fund's ability to make some volume of additional loans it otherwise might have been able to make.

**Requirements for Loan Closing.** The State expects to continue requiring each SRF participant to establish a dedicated source of payment for all loans made from the SRF and cause such loans to be paid according to their terms. The State will generally expect each loan to be evidenced by bonds (or other evidence of indebtedness) issued by or on behalf of the eligible participant. This will generally require each participant to complete the following prior to a loan closing:

- Submission of financial and operating information acceptable to the Budget Agency to evidence the establishment of a dedicated source of payment and an ability to pay each loan according to its terms;
- Completion of required notices, hearings, and other local actions to issue bonds (or other evidence of indebtedness) in a form and substance acceptable to the Budget Agency;
- Completion of required approvals, if any;
- Issuance of bonds (or other evidence of indebtedness) in a form and substance acceptable to the Budget Agency, together with opinions of nationally-recognized bond counsels to the effect that such are valid and binding obligations under State law, and interest thereon is excludible from gross income for federal tax purposes; and
- Entering into a financial assistance agreement in the form proposed by the Budget Agency.

The State will expect SRF participants to engage a nationally-recognized bond counsel and a qualified financial and rate consultant at its own expense to assist in structuring each SRF loan and its dedicated source of payment. These costs may be paid for from SRF loan proceeds.

**Non-Point Source Project Funding.** In connection with any financial assistance made available under a Non-Point Source Program to non-profit and for profit entities, the State expects to develop financial criteria and terms by which financial assistance (including loans) will be made available for eligible projects. The structure, terms, and conditions of such financial assistance may be materially different from other SRF financial assistance made available to political subdivisions. Any such financial assistance shall only be done in a manner consistent with agreements related to outstanding Guarantee Revenue Bonds and State Match Revenue Bonds. Additionally, because the SRF Program funds financial assistance from Guarantee Revenue Bonds and State Match Revenue Bonds issued by the State Issuer and the nature of those bonds significantly limit the aggregate amount of loan assistance that can be made to non-governmental unit, SRF loans will only be made to non-profit and for-profits entities in conformity with those limits. Once the combined aggregate amount of loan assistance to non-profit and for-profits entities funded from any single bond issue reaches the lesser of \$5 million or 5% of bond proceeds ("Private Funding Bond Limit"), no further loans will be made to any non-profit and for-profits entity from that bond issue. Unless additional

Guarantee Revenue Bonds and State Match Revenue Bonds are issued by the State Issuer during SFY 2003 or other sources of permissive funding are found to be available, as of May 1, 2002, only approximately \$2 million of the Private Funding Bond Limit remains unused. As of this date, no determination has been made as to whether other sources of permissive funding will be available, or if available, how much it will be.

#### **4. *Assurances, Specific Proposals***

The State provides the necessary assurances and certifications under its present Operating Agreement with the EPA; however, as required by 40 CFR 35.3150(b)(4). The State further certifies that it will:

- (a) Environmental reviews in accordance with federal law and State law ( Section 602(b) of the Clean Water Act and the requirements and procedures contained in Article V of the Operating Agreement and in Appendix V thereto).
- (b) Enter into binding commitments with political subdivisions for wastewater treatment projects in amounts equal to at least 120 percent of each quarterly federal capitalization grant payment within one year of the receipt of each such payment in accordance with Section 602(b)(3) of the Clean Water Act. As of May 15, 2002, binding commitments exceeded 120 percent of all grants awarded to date (that is, FFY 1994 through 2002), significantly in advance of the foregoing binding commitment deadlines. Further, such binding commitments would also exceed 120% of Capitalization Grants (inclusive of the estimated and yet-to-be-awarded FFY 2003 Capitalization Grant). Such amounts are banked toward meeting future binding commitment requirements.
- (c) Expend all SRF funds in a timely and expeditious manner in accordance with Section 602(b)(4) of the Clean Water Act. As demonstrated by Appendix E, the State has used all SRF funds in a timely and expeditious manner and will continue to do so.
- (d) Use the federal capitalization grants, the state matches and whatever loan repayments are required to be so used first to assure maintenance of progress toward compliance with enforceable deadlines, goals and requirements of Section 602(b)(5) of the Clean Water Act (to this end, the State asserts that all national municipal policy projects in Indiana have been funded and are in compliance or have an enforceable schedule, an enforcement action filed or a funding commitment).

#### **5. *Criteria, Means by Which SRF Moneys Will Be Disbursed***

As a general rule, proposed wastewater projects will be financed in the order listed on the Project Priority List, subject to the availability of funds, readiness to

proceed, and the ability of the political subdivision proposing a project to comply with the conditions set forth in the State's binding commitment with the political subdivision.

In addition, "project readiness criteria" will be applied to assure that proposed projects that are "ready" for SRF financing will not be slowed down by higher priority proposed projects that are on a slower timetable or financing schedule. Subject to the availability of loanable proceeds these "bypassed projects" will remain eligible for SRF financing – either later in SFY 2003 or by inclusion (upon application) on future fiscal year Project Priority Lists.

Steps towards "project readiness" can be demonstrated by:

- (1) initiating the Preliminary Engineering Report process, and
- (2) initiating the steps required by State statute and the SRF Program to proceed with a financial closing within the SRF Program.

The timing of the SRF loan closing varies from one political subdivision to another. However, the financial side of the loan closing process primarily involves the political subdivision retaining a nationally recognized bond counsel to issue its unqualified, approving opinion on the validity of the bonds at closing, completing the State law steps to issue valid bonds and demonstrating the ability to repay the SRF loan.

Proposed projects the State determines to be ineligible for SRF financing will not be included on (or will later be removed from) the Project Priority List. Notices thereof will be given to the political subdivision that submitted the application for the ineligible proposed project.

Disbursements of SRF funds will be made on a cost-incurred basis in accordance with Clean Water Act and State law.

## **VI.**

### **Public Information**

#### **A. Public Participation**

A public hearing on the proposed Intended Use Plan was held at 1:00 PM on June 18, 2002 at the Indianapolis-Marion County Public Library Services Center, 2450 N. Meridian Street, Indianapolis. Public notice of the hearing date and time was given not later than June 4, 2002 in the Indiana Register and in Indiana newspapers published throughout the State no later than May 29, 2002. Copies of this proposed Intended Use Plan were sent to all communities with projects listed on the Project Priority List and other interested persons, and were deposited in the Department's Indianapolis, Northern, Northwest, and Southwest Indiana offices and in 14 Indiana public libraries. Copies were also available by mail upon request.

In addition to the public hearing, written comments were accepted until June 28, 2002.

**B. Records**

All documents received and prepared in connection with Proposed Projects will be filed appropriately and maintained by the State in accordance with federal law, including 40 CFR Part 31.42, and State Law. These documents will be available to the public (in accordance with the State Access to Public Records Law, IC 5-14-3-1 et seq.) and EPA.

**C. Amendments**

This Intended Use Plan, including the Project Priority List, may be amended during SFY 2003 in accordance with federal and State Law. As described under III. Project Priority List the State intends to amend the Priority List later in the fiscal year. The Intended Use Plan may also be amended to reflect any minor changes which constitute data revision or clarification.

Any amendments to the PPL for the addition of wastewater projects will be subject to public participation. The Department plans to notify all communities with projects on the PPL of any amendments to the PPL adding projects (to the bottom of the list), on or about the 15<sup>th</sup> day of the last month of any quarter in which any amendments are proposed (to be effective the first day of the following month, which begins a new quarter). The communities will be notified by mail and given until the end of the month to respond with comments on the proposed amendment.

## **Appendix B**

### **INDIANA DEPARTMENT OF ENVIRONMENTAL MANAGEMENT FY 2003 PROJECT RANKING SYSTEM**

#### **For the State Wastewater Revolving Fund (SRF) Loan Program**

##### **Part I – Stream Segment Ranking System Part II – Municipal Discharger Inventory Ranking System Part III – System for Project Priority List**

### **General**

The following ranking systems are used to prioritize municipal wastewater treatment works projects for State Revolving Fund (SRF) loan assistance. These ranking systems are consistent with the requirements of the Federal Water Pollution Control Act Amendments of 1972 (PL 92-500), the Clean Water Act of 1977 (PL 95-217), the Municipal Wastewater Treatment Construction Grant Amendments of 1981 (PL 97-117), and the Water Quality Act of 1987 (PL 100-4), as well as with federal regulations and guidance promulgated thereunder. The funding priorities established shall be effective for allocating federal and State loan funds to communities which submitted applications for inclusion of their projects on the State fiscal year 2003 Project Priority List (PPL) for the SRF.

The Project Ranking System (PRS), which includes the Stream Segment Ranking, Municipal Discharger Inventory (MDI), and Project Priority List will be reviewed annually and revised. A public hearing(s) will be held on the PRS and PPL each year in conjunction with the public meeting(d) required for the Intended Use Plan, prior to submission to the U.S. EPA. Identified on the PPL, which is integrated into the annual IUP as the eligible project list, will be fundable loan projects which are expected to receive financing during the fiscal year.

### **Part I – Criteria for Stream Segment Ranking**

The PRS begins with a stream segment ranking process to develop a Segment Score (SS). The State of Indiana has been divided into 99 stream segments, primarily on a watershed basis, and each segment is classified as either water quality limited or effluent limited. Each segment is scored according to the following formula:

$$SS = DR + PA + SC + IP, \text{ where}$$

DR=Dilution Ratio Points

SC=Segment Classification Points

PA=Population Affected

IP=Interstate Priority Segment Point

## Formula Variables

- I. **Dilution Ratio** – the ratio of the 7-day 10 year low flow\* of the receiving stream (measured in cubic feet per second (cfs) to the design flow of the plant (measured in million gallons per day (mgd)). This ratio is multiplied by 10 to obtain a manageable number, to which points are assigned for PPL ranking purposes (see Table 1).

If plant flow is unavailable (i.e., unsewered communities), the dilution ratio in the ratio of the 7-day 10 year low flow of the receiving stream to the population equivalent (PE) of the community, which in this case will be equal to the latest federal census population or population estimate prepared by the Bureau of Census. (For regional sewer/waste or conservancy districts and communities presently serving an unincorporated area, the PE will be the existing population to be served, based upon the latest published persons-per-household factor for the affected area from the Bureau of Census). This is multiplied by 10 to avoid excessive decimal places.

TABLE 1  
DILUTION RATIO VALUES

Dilution Ratio (x 10)	Points	Dilution Ratio (x10 )	Points
0-0.020	10.0	0.201-0.400	5.0
0.021-0.040	9.5	0.401-0.600	4.5
0.041-0.060	9.0	0.601-0.800	4.0
0.061-0.080	8.5	0.801-1.000	3.5
0.081-0.100	8.0	1.001-3.000	3.0
0.101-0.120	7.5	3.001-5.000	2.5
0.121-0.140	7.0	5.001-7.000	2.0
0.141-0.160	6.5	7.001-9.000	1.5
0.161-0.180	6.0	9.001-11.000	1.0
0.181-0.200	5.5	11.000+	0.5

\*The 7-day 10 year low flow is determined by U.S. Geological Survey gauging station records whenever possible. Where no records exist, this low flow is estimated by extrapolation from similar streams where records do exist. For a municipality discharging into a designated limited use receiving stream, the 7-day 10-year low flow shall be determined at the point immediately below the limited use stream segment. (For calculation purposes, zero flow will be assigned a value of 0.1 cfs.)

Direct discharges to lakes will be assigned five points.

For discharges having more than one treatment plant, the receiving stream for each plant will be used for ranking each discharge individually. When the plants discharge to the same receiving stream, the low flow, as measured upstream from the plant discharge, will be disaggregated to each discharge according to the percentage of the P.E. or population (whichever is greater) of each discharge.

2. Population Affected – The population affected is equal to Log of the ratio of the population of municipal discharges (on systems discharging to the same segment) to the area of the discharge stream segment as measured in square miles. The population used will be the sum of the populations of all municipal dischargers on the segment, using the latest federal census or population estimate prepared by the Bureau of the Census. If an official special census has been conducted, this special census population will be used.
3. Segment Classification Points – Three points are assigned to water quality limited segments. A water quality limited segment is a water body where technology based controls at discharge points are not sufficient to achieve the State Water Quality Standards (WQS). Two points are given to effluent limited segments. An effluent limited segment is any water body where the technology based controls are sufficient to meet the WQS.
4. Interstate Priority Segment Point – One point is assigned to segments within drainage basins which have been designated by the State as priority basins; these are Lake Michigan, St. Joseph River, and Maumee River Basins.

## **Part II – Criteria for Municipal Discharger Inventory (MD) Ranking**

Municipalities requesting placement of a project on the PPL must be listed on the Municipal Discharger Inventory. The MDI ranking is based on the Municipal Discharger Score (MDS) which is calculated as follows:

MDS = SS+DR+P+FN, where

SS= Segment Score

DR= Dilution Ratio Points

P= Population

FN=Facility Need Points

### ***Formula Variables***

1. Segment Score – as determined in Part 1.
2. Dilution Ration Points – as identified in Table 1.
3. Population Index – the population of the wastewater system service are divided by 50,000. Values may range from 0.01 to 10.0.

**Facility Need Points** – these points are allotted as shown in Table 2 (letter designations for each type of facility need are also listed).

TABLE 2  
FACILITY NEED POINTS

Letter <u>Designation</u>	<u>Points</u>	<u>Facility Need</u>
X	7.0	Plant expansion to meet existing needs, major improvements to reduce wastewater flow, and the upgrading of existing secondary facilities to achieve compliance with secondary limits. (Plant expansion needs will be placed in secondary or advanced treatment categories based on the required National Pollutant Discharge Elimination system (NPDES) permit effluent limitations supported by a wasteload allocation (WLA) study, where applicable.)
B	5.0	New treatment plant and collection system or new collection system with regionalized treatment. (New plant needs will be placed in secondary or advanced treatment based on the NPDES permit effluent limitations supported by a WLA study, where applicable.)
A	3.0	Advanced wastewater treatment. Additional Biochemical Oxygen Demand (BOD) and suspended solids removal, beyond Secondary treatment.
N	3.0	Ammonia removal facilities.
D	3.0	Dechlorination
F	2.0	Addition of phosphorus removal facilities.
C	1.0	Addition of effluent disinfection facilities.

### **Part III – Criteria for Project List (PPL) Ranking**

The third step in the project ranking system is to use the Municipal Discharger Score in determining the Priority Value Number (PVN), which is the ranking number for the PPL. This is done as follows:

$$PVN = MDS \times PT, \text{ where}$$

MDS = Municipal Discharge Score, as determined in Part II

PT = Project Type Multiplier

Project types and their corresponding multipliers and their codes are shown in Table 3.

TABLE 3  
PROJECT TYPE MULTIPLIERS

<u>Multiplier</u>	<u>Project Type Code</u>	<u>Project Type</u>
1.00	1	Secondary or advanced wastewater treatment of transferring sewage to a regional system.
0.75	2K	Combined sewer overflow (CSO) correction-storm/sanitary sewer separation, CSO retention basins/control structures, primary treatment at CSO points, or treatment of overflows.
0.70	2R	Infiltration/inflow correction* or major sewer system rehabilitation.**
0.50	3I	Construction of a new interceptor sewers.
0.25	4W	Construction of new collection sewers not associated with a new treatment plant, or initiating sewage transfer to a regional system.

\* This includes downspout disconnections, elimination of sanitary/storm sewer cross connections, manhole cover replacements.

\*\* Primarily collector and interceptor sewer replacement throughout the municipality, sewer relining, and other major repairs.

#### **Part IV – Project Category Coding Summary**

The interrelationship between the Clean Water Act designations, the Needs Survey categories, and the Project Ranking System project type and multiplier and facility need code is shown in the following table:

TABLE 4  
WASTEWATER TREATMENT PROJECT CATEGORY CODES

Clean Water Act Of 1977	Scope of Work Description	Needs Survey	Project Type Multi.	PPL Project Type	Facility Need Code
A	Secondary Treatment	I	1.0	1	C,B,X
B	Advanced Treatment	II	1.0	1	B,A,N,F,X,D
C	Infiltration/Inflow Correction	IIIA	0.7	2	R
D	Major Sewer System Rehabilitation	IIIB	0.7	2	R
E	New Collection Sewers	IVA	0.25	4	W
F.	New Interceptors	IVB	0.5	3	I
G.	CSO Control	V	0.75	2	K

X - Plant expansion needs will be placed in secondary or advanced treatment categories based on the required NPDES permit effluent limitations supported by a wasteload allocation study, where applicable.

B - New plant needs will be placed in secondary or advanced treatment categories based on the required NPDES permit effluent limitations by a wasteload allocation study, where applicable.

### **Part V – Project Ranking System Rules**

#### **A. Municipal Discharger Inventory Rules**

Specific Rules associated with the development of the MDI area as follows:

1. All incorporated communities having a population of 500 or more and any other municipal pollution sources with documented pollution problems (including municipalities without permits) are to be listed on the MDI.
2. If a municipal discharger has more than one treatment plant and collection system, each system will be identified and ranked separately on the MDI.

3. When a regional sewer/waste district or conservancy district is formed, that entity will be ranked as a single municipal discharger rather than ranking each participating community separately.
4. Facility needs will be the existing wastewater treatment plant needs as determined by IDEM regulations and policies. The conditions and/or effluent limitation requirements in the NPDES permit, supported by a wasteload allocation study where applicable, will be the enforceable requirements which establish the facility need code used in the MDI. These requirements are referred to as enforceable because if violated, a compliance order for legal action is issued. Where a permit has not been issued, the enforceable requirements shall be any effluent limitations which would be included in the permit, when or if issued. Where no permit is applicable, the term shall mean any requirement necessary to meet applicable criteria for Best Practicable Waste Treatment Technology (BPWTT).
5. For the purposes of establishing wastewater treatment plant expansion facility need, the criteria of 95 percent (hydraulic (dry weather) or organic load) of existing accepted design capacity shall be used.
6. The facility needs for a discharger served by another discharger will be the same needs as the discharger providing the treatment.
7. When a municipal discharger completes construction of a SRF loan project which would satisfy all of the facility needs, the municipality will remain on the MDI and reflect a zero facility need score.
8. All dischargers on the MDI are reviewed annually for correct identification of the discharge receiving stream, as well as for accurate 7-day 10-year low flow stream data. Facility needs may be updated annually as well. Approved WLA studies, recent monthly operation reports, current permit limits, stream use designations, and population projections, where available, will be the criteria for these verifications. The average daily population equivalent for the most recent year (using a 12-month average) is also checked annually for all cities submitting Municipal Report of Operation forms.
9. Population figures are revised as shown in the latest official federal census or official special census reports. Where conservancy district and regional sewer/waste district census information is not available, the district boundaries will be compared with township census information, recent aerial photographs or maps, as well as other factors previously mentioned.
10. The IDEM will review requests annually for any changes to facility needs or additions to the MDI based on the legal formation of newly incorporated municipalities, regional sewer/waste districts, or conservancy districts, or any

newly recognized community with sewage discharge problems. The procedure for adding such entities is as follows:

- The entity may submit a formal request to the IDEM Assistant Commissioner of the Office the Water Management to be placed on the MDI; attached to this request must be proper documentation of any existing sewage discharge problems. While there is no established format for relating such problems, the traditional, preferred approach is a letter from the county health officer stating the nature and extent of the problem, giving detailed references (sampling data, record of complaints, photographs, etc.) in support of the statement of problems.
  - The Assistant Commissioners of the Office of Water Management will forward the request to the Facilities Development Branch which will do a background search of any identified water quality or public health problem.
  - The Facilities Development Branch will then establish a municipal MDI, of their approximate ranking and what this means in terms of being placed on the PPL.
11. The MDI may be updated quarterly, based on the most current data available, to reflect changes in facility needs or stream data, and any additions to the MDI. This constitutes data revision, not system revisions, therefore a public hearing is not required.

## **B. Project Priority List Rules**

Rules which apply to the development of the PPL are as follows:

1. The Project Ranking System, PPL & IUP will be reviewed and revised annually. New projects submitted by communities will be added at this time. Communities with project on the PPL must reapply each year if still interested in SRF financing, for their project to be included on the following year's PPL.

A public hearing(s) will be held each year to allow for public input on the Project Ranking System and PPL, in conjunction with the public meeting(s) required for the IUP. The IDEM will distribute copies of the public notice, PRS, PPL, and IUP to all communities listed herein, and to other interested parties. The public notice, which includes information regarding the hearing(s) and where copies of the PRS, PPL, and IUP are available for review, will be published in the Indiana Register and in several newspapers around the State. Oral and written comments will be accepted, and an summary of IDEM responses will be prepared and available for public review.

2. The projects will be ranked according to the priority value number (the highest value number ranked first).
3. Where regionalization of two or more municipal dischargers occurs, the priority value number of the highest ranked municipality will be used and the lower ranked municipality(ies) will be accorded the same rank to allow simultaneous funding of the joint project.
4. If a community submits a project proposal involving more than one project type (e.g. treatment plant improvements and major sewer system rehabilitation), it will be rated as one project. The project type multiplier to be used in ranking the project will be determined by the project type with the highest cost percentage. If costs are relatively equal, the project type multiplier of greatest value will be used.
5. The project cost used in preparing the PPL, will be based upon the best available information. The community may be asked to update the project cost and schedule information periodically.
6. The PPL may be updated quarterly to reflect changes in project costs, project scope, loans awarded, and to add any new projects. Applications are accepted throughout the year, although all applications received other than during the annual application process to develop the PPL, will be held until the next quarterly PPL update and added at that time. Any projects added at this time will be placed at the bottom of the PPL, after providing the public an opportunity for input/comment.

To allow for public participation prior to any quarterly updates, communities with project on the PPL will be notified by mail of any amendments to the PPL, which will add new projects by the 15<sup>th</sup> day of the month prior to the start of a new quarter for which an update is being proposed. PPL communities will be given until the end of the month to respond with comments on the proposed amendment/quarterly update.

#### **Part IV – SRF Funding Criteria**

##### **A. Fundable Projects and Project Bypass Procedures**

1. The Budget Agency will evaluate the PPL to determine the fundable projects using the following factors:
  - The number of projects to be funded will be restricted by the amount of funds available. The total dollar amount needed for fundable projects each year cannot exceed the amount of funds available for that year.

- The ultimate funding of a project will be based not only on the availability of funds but also on project readiness. The project readiness factor allows timely obligations of the allocated funds, without the threat of losing funds through reallocation to other states if commitment deadlines are not met, and to make progress toward construction of functional infrastructure. This requires timely, quality submissions of program documents within established time frames, which are necessary for loan approval and expeditious obligation of funds.
  - Projects for which SRF-required Preliminary Engineering Reports (PER) have been submitted will be considered fundable projects. This is consistent with the project readiness factor, it is assumed that projects which have completed PER's will be ready for funding sooner than those on the PPL that do not.
2. Project bypass procedures are based on the availability of funds and project readiness. When projects on the PPL are bypassed, the following procedures will be used:
    - A project that is bypassed for funding will retain its relative priority rating until the next annual PPL/IUP revisions.
    - A project that is bypassed will be replaced by the next highest ranking priority project on the PPL that is ready to proceed.

**B. Fund Availability**

1. A dollar limit or maximum percentage of funds available may apply to a project if it requires a disproportionate share of the available loan funds.
2. A dollar limit or maximum percentage for change orders or amendments may apply to SRF projects depending on the availability of funds and the ability of the community to repay the additional dollars.

## **APPENDIX C**

### **Expanded Uses**

Non-point source (NPS) pollution is a major cause of water pollution in Indiana. Unlike point source pollution, which enters our waters at definite locations such as discharge pipes from wastewater treatment plants, nonpoint source pollution originates from numerous, diffuse sources from activities such as agriculture, construction, land disposal, forestry, and hydrological/habitat modification.

NPS pollutants such as sediment, nutrients, bacteria, pesticides, and chlorides are carried by stormwater runoff and leachate into nearby surface and groundwater bodies and can result in water quality degradation. Nonpoint source pollution is the primary pollution source for the majority of surface water in Indiana, that is water quality impaired.

The Federal Water Pollution Control Act, as amended in 1987, allows States to use funds from their State Revolving Loan Fund (SRF) to address nonpoint source pollution. Specifically, State SRF programs may provide assistance in the form of loans, loan guarantees, bond insurance, or refinancing of existing debt for the implementation of U.S. Environmental Protection Agency (EPA) approved State Nonpoint Source Management Programs as required under Section 319 of the 1987 Water Pollution Control Act amendments.

Section 319 requires each state to develop a State Nonpoint Source Management Plan & Assessment Report. This watershed assessment of NPS impacts is updated and printed in the biennial Indiana 305(b) Water Quality Report (Indiana Office of Water Quality). The Nonpoint Source Pollution Management Plan for Indiana (Indiana Office of Water Quality, 1999) which was approved by EPA, lists specific activities for controlling the nonpoint source pollution impacts identified in the NPS Management Plan, and identifies responsible implementing agencies and potential/available funding sources.

Indiana's Nonpoint Source Program will fund on-site septic systems improvements, agricultural Best Management Practices (BMPs)/corrective action activities, stormwater discharge controls, erosion control projects, some wetlands projects, and riparian projects.

The IDEM SRF section has developed applications for nonpoint projects, a method for declaring priorities, and will work with the State Budget Agency to determine mechanisms for funding NPS projects.

The SRF program expects to market NPS funding opportunities to communities in several ways. First, the IDEM will prepare a letter introducing the Nonpoint source opportunities and soliciting interest from communities. The letter will also contain an application for interested communities to complete and return. Second, IDEM SRF staff also plan to attend meetings and appropriate in-state conferences to promote NPS SRF

opportunities. Third, IDEM SRF staff will continue to visit interested communities to explain program specifics.

Eligible entities would submit a completed NPS project proposal. The projects will be placed on the NPS section of the Wastewater SRF PPL and would be evaluated regarding eligibility for SRF funding (per Section 319 of the Clean Water Act and the States NPS Management Plan). An assessment of watersheds prioritized by and eligible for funding by Section 319 of the Clean Water Action Plan will be given priority consideration for SRF funding during the SFY 2002 PPL. Project proposals for NPS SRF will be accepted throughout the year and added to the PPL at either establishment of the annual PPL list or at the appropriate amendment periods (October 1<sup>st</sup>, January 1<sup>st</sup>, or April 1<sup>st</sup>).

## **APPENDIX D**

### **INTENDED USES OF FUNDS IN THE STATE'S SRF ACCOUNTS**

This Appendix identifies the intended uses of the funds held in various accounts of the SRF Fund, and how those uses support the goals of the SRF. This Exhibit also demonstrates how the State meets the requirements of 40 CFR 35.3135(d) by using all of the funds in the SRF Fund in an expeditious and timely manner.

#### **Sources, Uses and Available Balances in SRF Accounts**

The following accounts have been created and exist under the State's Wastewater Trust Indenture and comprise its Wastewater SRF Fund. The expected uses of available balances are discussed below (including in a summary on page 8 captioned "Summary of Expected Uses of Available Balance").

#### **Wastewater Purchase Account.**

*Sources of Funds:* Funds held in this account come from proceeds of Program Bonds<sup>1</sup> issued at the request of the State. The State expects to cause additional Guarantee Revenue Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2003.

*Uses of Funds:* These funds are used to make loans for qualified projects as permitted by 40 CFR 35.3120(a). This use directly furthers the primary purpose of the SRF by financing eligible projects and through their construction improves water quality in the State.

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<sup>1</sup> These bonds are revenue bonds within the meaning of 40 CFR 35.3120(d), the net proceeds of which were deposited in the SRF Fund. To date, the State has caused 8 series of bonds, in an aggregate principal amount of approximately \$1,058.6 million (the "Program Bonds"), to be issued related to the SRF Fund. The allocable portion of the Program Bonds deposited in the Purchase Account are referred to as the "Guarantee Revenue Bonds" and the allocable portion of the Program Bonds deposited in the State Match Loan Subaccount or other state match related accounts are referred to as the "State Match Revenue Bonds."

*Available Balance:* As of June 30, 2002, the aggregate amount of closed loans is expected to *exceed* the balance<sup>2</sup> in this account by approximately \$39.0 million. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

**Wastewater Qualified Obligation Principal Account.**

*Sources of Funds:* Funds held in this account come from principal payments on loans made from the Purchase Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d). This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance eligible projects and through their construction improves water quality in the State.

*Available Balance:* Each February and August 1, this account is fully depleted. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

**Wastewater Qualified Obligation Interest Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the Purchase Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) and 40 CFR 35.3135(b)(2), respectively. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance eligible projects and through their construction improves water quality in the State.

*Available Balance:* Each February and August 1, this account is fully depleted. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

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<sup>2</sup> Pursuant to flexibility contained in its financing indentures, the State is holding approximately \$40 million in bond proceeds in its SRF Program Fund outside the SRF Fund; this amount has been *included* in the Available Balance amount under a tentative designation for deposit in the Wastewater Purchase Account but may ultimately be allocated to and deposited in the Drinking Water SRF at the option of the State; it is expected these funds will be so deposited by August 1, 2002. Any such allocation to the Drinking Water SRF would serve to correspondingly increase the "Excess Commitments" described in this Appendix.

### **Wastewater Earnings Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the State Match Loan Subaccount and other earnings on invested SRF funds.

*Uses of Funds:* These funds are *first* used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively, and *secondly* transferred to the Unrestricted Subaccount, as described below

*Available Balance:* Each February and August 1, this account is fully depleted. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

### **Wastewater Administration Account.**

*Sources of Funds:* Funds held in this account come from the outstanding State Match Revenue Bonds.

*Uses of Funds:* These funds are applied to reasonable costs of administering the SRF as permitted by 40 CFR 35.3120(g). The State expects to apply these funds and other funds in the SRF<sup>3</sup> to this purpose in the SFY 2003. Any funds not expended in SFY 2003 are reserved for management of the SRF in perpetuity by the State.

*Available Balance:* As of May 1, 2002, the aggregate amount held in this account was approximately \$3.2 million. All of these funds are expected to be used solely to pay reasonable costs of administering the SRF. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

**Wastewater Equity Account** contains the following subaccounts:

#### **Restricted Subaccount.**

*Sources of Funds:* Funds held in this account come from Federal capitalization grants drawn when funds are loaned or administrative expenses are incurred.

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<sup>3</sup> Amounts set aside in this account only represent a portion of the funds the State is permitted by 40 CFR 35.3120(g) to apply to costs of administering the fund. Approximately \$9.7 million of additional funds in the SRF may be used for this purpose. (This amount assumes the award of the FFY 2003 Capitalization Grant. The State will apply for and expects this grant to be awarded in SFY 2003.)

*Uses of Funds:* These funds are used (i) as security for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e), (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35. 3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively, (iii) to fund any transfers to the State's Drinking Water SRF as permitted by Section 302 of the Safe Drinking Water Act, (iv) to provide funds to meet costs of administering the SRF in perpetuity, and (v) to fund that portion of any loans closed but not presently on deposit in the Purchase Account<sup>4</sup> in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for eligible projects available and through their construction improves water quality in the State.

*Available Balance:* As of May 1, 2002, the aggregate amount held in this account was approximately \$444.4 million.<sup>5</sup> In furtherance of these purposes, the funds in this account are invested with certain short-term investments, treasury obligations<sup>6</sup> and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the State's option as set forth in the attached Schedule 1, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

### **Unrestricted Subaccount.**

*Sources of Funds:* Funds held in this account come from transfers from the Earnings Account on each February and August 1.

*Uses of Funds:* These funds are used (i) as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35. 3120(d)

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<sup>4</sup> As of June 30, 2002, closed loan commitments (a portion of which are yet to be drawn) are expected to exceed amounts on deposit in the Purchase Account by approximately \$39.0 million. Further, this amount is expected to increase during SFY 2003 up to an amount equal to as much as \$278.5 million before additional Guarantee Revenue Bonds are issued. This amount only represents the aggregate amount of projects with approved preliminary engineering reports (PERs) and PERs submitted and under review by Department as of May 1, 2002. As additional PERs are submitted (including in SFY 2003), the amount of SRF funding sought by Indiana communities could increase this to \$486.3 million.

<sup>5</sup> Before \$6.1 million of transfers to the Drinking Water SRF as discussed elsewhere in this Appendix.

<sup>6</sup> Other than a \$655,000 SLGS treasury bond.

& (f) and 40 CFR 35.3135(b)(2), respectively, and (ii) to fund that portion of any loans closed but not presently on deposit in the Purchase Account<sup>7</sup> in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for eligible projects available and through their construction improves water quality in the State.

*Available Balance:* As of May 1, 2002, the aggregate amount held in this account was approximately \$61.1 million.

#### **State Match Loan Subaccount.**

*Sources of Funds:* Funds held in this account come from (a) proceeds of State Match Revenue Bonds<sup>8</sup> issued at the request of the State and (b) principal repayment on loans made from these funds.

*Uses of Funds:* These funds are used to make loans for qualified projects as permitted by 40 CFR 35.3120(a). The principal repayments on these loans are then used as security and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e). These uses directly and indirectly further the primary purpose of the SRF by making financing for eligible projects available and through their construction improves water quality in the State.

*Available Balance:* As of June 30, 2002, the aggregate amount of closed loans that can be funded from this source are expected to equal the full balance held in this account other than principal repayments on loans already funded from this source. Such principal repayments were approximately \$8.9 million as of May 1, 2002 and are used as security and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e). Accordingly, none of the funds in this account are available for other SRF purposes.

#### **Wastewater Guarantee Reserve Account.**

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<sup>7</sup> As of June 30, 2002, closed loan commitments (a portion of which are yet to be drawn) are expected to exceed amounts on deposit in the Purchase Account by approximately \$39.0 million. Further, this amount is expected to increase during SFY 2003 up to an amount equal to as much as \$278.5 million before additional Guarantee Revenue Bonds are issued.

<sup>8</sup> These bonds are revenue bonds within the meaning of 40 CFR 35.3135(b)(2), the net proceeds of which were deposit in the SRF Funds. As of May 1, 2002, approximately \$59.1 million of the proceeds of State Match Revenue Bonds have been deposited in the State Match Loan Subaccount. This amount (together with other match sources) has matched all capitalization grants awarded to date.

*Sources of Funds:* Funds held in this account come from proceeds of State Match Revenue Bonds issued at the request of the State.

*Uses of Funds:* These funds are used as security and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e). This use indirectly furthers the primary purpose of the SRF by making financing for eligible projects available and through their construction improves water quality in the State.

*Available Balance:* As of May 1, 2002, the aggregate amount held in this account was approximately \$25.6 million. In furtherance of this purpose, the funds in this account are invested in the Investment Agreements and are not available for other SRF purposes.

#### **Wastewater Bond Reserve Account.**

*Sources of Funds:* Funds held in this account come from transfers from the Unrestricted Subaccount.

*Uses of Funds:* These funds are used as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively. This use indirectly furthers the primary purpose of the SRF by making financing for eligible projects available and through their construction improves water quality in the State.

*Available Balance:* As of May 1, 2002, the aggregate held in this account was approximately \$4.8 million. In furtherance of these purposes, the funds in this account are invested in the Investment Agreements and are not available for other SRF purposes.

#### **Additional Information Concerning Expected Uses of SRF Funds**

**Use of Available Balances to Meet Closed Loan Commitments.** Under its existing practices, the State closes SRF loans with communities without the necessity of having available balances in its Purchase Account to fully fund those loan commitments on the date an SRF loan is closed. The State estimates that as of the commencement of SFY 2003, the aggregate amount of loans committed will *exceed* on-hand balances in the Purchase Account and State Match Loan Subaccount including its recently issued Program Bonds dated November 14, 2001 (the "Excess Commitments") by approximately \$39.0 million. Further, if all requested loans for those projects that have

submitted PERs to the Department as of May 1, 2002 are completed, Excess Commitments would be estimated to be approximately \$278.5 million and thereby resulting in aggregate SRF loans to *exceed* \$1.17 billion. As additional PERs are submitted in SFY 2003, the amount of SRF funding sought by Indiana communities could increase above this level.<sup>9</sup>

The State expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2003. Additionally, certain amounts held in the Restricted Subaccount and Unrestricted Subaccount of the Equity Account are available and would be used to meet a portion of the projected funding requirements for loans presently closed (and those anticipated to be closed in SFY 2003) in the event additional Guarantee Revenue Bonds could not to be issued.

**Use of Available Balances as a Reserve and Source of Payment for Guarantee Revenue Bonds.** Amounts held in the Guarantee Reserve Account, the Bond Reserve Account, the Restricted Subaccount, the portion of the State Match Loan Subaccount which represents principal repayments on loans made, and the Unrestricted Subaccount represent a reserve which secures, and is a source of payment, for Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f). In addition to this use, a portion of these funds are also held to meet (a) Excess Commitments in SFY 2003 in the event additional Guarantee Revenue Bonds could not to be issued, (b) costs of administering the SRF in perpetuity, and (c) any transfers to the Drinking Water SRF if permitted by law.

**Use of Available Balances as a Source of Payment for State Match Revenue Bonds.** Amounts held in the Bond Reserve Account and the Unrestricted Subaccount also represent a source of payment for State Match Revenue Bonds as permitted by 40 CFR 35.3135(b)(2). Further, earnings from amounts held in the Guarantee Reserve Account, the Bond Reserve Account, the Restricted Subaccount, the portion of the State Match Loan Subaccount which represents principal repayments on loans made, and the Unrestricted Subaccount are a source of payment for State Match Revenue Bonds as permitted by 40 CFR 35.3135(b)(2). In addition to this use, a portion of these funds are held to meet Excess Commitments in SFY 2003 in the event additional Guarantee Revenue Bonds could not to be issued.

**Use of Available Balances to Transfer Funds to the Drinking Water SRF.** During SFY 2003, the State expects to continuously refine its analysis of the ability of the resources in its Drinking Water SRF to meet demand for Drinking Water loans. Present analysis evidences that even after a transfer of the full amount permitted transfers (33 percent of aggregate Drinking Water Capitalization Grants awarded by September 30, 2002) from the Wastewater SRF to the Drinking Water SRF, requested Drinking Water loans in SFY 2003 will be at or near the Drinking Water Program's leveraged loan

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<sup>9</sup> In addition to the projects represented by submitted PERs on file with Department, the PPL for SFY 2003 has additional projects seeking SRF loans, which loans would aggregate \$207.8 million.

capacity. As of May 1, 2002, about \$20.6 million has been transferred; since then, \$3.1 million was similarly transferred. It is expected that by August 30, 2002 (in advance of the October 1, 2002, the extended transfer deadline contained in Section 302 of the Safe Drinking Water Act), a final determination of the cumulative transfer amount will be fixed. Further, in the event the Safe Drinking Water Act is amended to extend the sunset date for such transfers, the State would expect about \$3 million (based upon an estimated \$9 million FFY 2003 Drinking Water Capitalization Grant) of these funds (held in the Restricted Subaccount) to be used for this purpose. Such transfer may be effectuated by a transfer of an invested balance from (a) one or more of the State's Investment Agreements or (b) other investments. These invested funds would then be used to support the issuance of Guarantee Revenue Bonds, the proceeds of which would be used to make Drinking Water loans.

**Summary of Expected Uses of Available Balances.** To further assist the public with its understanding how the foregoing "Available Balances" will be used in SFY 2003, the following chart summaries the anticipated uses within the SRF.

SRF Account	Expected Use	Available Amount *
	<i>Amounts to be Directly Used to Make Loans</i>	
State Match Loan Subaccount (Use#1)	Existing balances are fully committed by closed loans, except for the portion noted under State Match Loan Subaccount (Use #2) below.	\$-0-
Purchase Account (Use #1)	Existing balances are fully committed by closed loans.	\$-0-
	<i>Amounts Available to Meet Excess Commitments until Program Bonds Can be issued</i>	
Purchase Account (Use #2)	Inclusive of loans expected to be closed by the start of SFY 2003, loans committed will <i>exceed</i> on-hand balances (the "Excess Commitments"). These Excess Commitments are expected to be funded with additional Guarantee Revenue Bonds issued in SFY 2003 and beyond. (See Restricted Subaccount (Use #1) and Unrestricted Subaccount below related to this.)	<ul style="list-style-type: none"> <li>As of June 30, 2002, there are expected to be approx. \$29.8 million of Excess Commitments.</li> <li>Estimated maximum Excess Commitments in SFY 2003 are projected to be \$486.3 million.</li> </ul>

Restricted Subaccount (Use #1)	<i>Primary use:</i> these funds are held to meet Purchase Account Excess Commitments <sup>10</sup> including those expected to be made in SFY 2003. While this amount would not be sufficient to fund all expected Excess Commitments, the issuance of additional Program Bonds is anticipated. <i>Secondary use:</i> These funds also serve the uses set out under the Restricted Subaccount (Use #3 below) in the event they are not directly applied to fund loans presently represented by Excess Commitments.	<ul style="list-style-type: none"> <li>As of May 1, 2002, funds held for Use #1 are approx. \$-0-million.<sup>11</sup></li> <li>When all grants are fully converted to cash, this amount it is expected to increase to approximately \$425.2 million.<sup>12</sup></li> <li>When additional Program Bonds are issued, a portion of this Use #1 will be re-allocated to Use #3.</li> </ul>
Unrestricted Subaccount	<i>Primary use:</i> these funds are held to meet Purchase Account Excess Commitments including those to be made in SFY 2003. <i>Secondary use:</i> These funds also serve the uses set out under the Bond Reserve Account below.	\$61.1 million
	<i>Amounts Available for Administrative Expenses totaling \$12.9 million</i>	
Administration Account	These funds are held to meet costs of administering the SRF in perpetuity.	\$3.2 million
Restricted Subaccount (Use #2)	These funds are held to meet costs of administering the SRF in perpetuity.	\$9.7 million <sup>13</sup>

<sup>10</sup> While the State designates Use #1 as being available to fund Excess Commitments, it expects such commitments to be funded from the issuance of additional Guarantee Revenue Bonds. However, retention of these available balances (i.e., this Use #1) for this purpose is deemed to be prudent until sufficient amounts are actually deposited in the Purchase Account from additional Guarantee Revenue Bonds.

<sup>11</sup> This amount represents Excess Commitments as May 1, 2002 (\$39.0 million) less the Unrestricted Subaccount balance (\$39 million out of the total \$61 million held).

<sup>12</sup> As loans are disbursed and administrative expenses are paid from the proceeds of the Program Bonds, the State will convert to cash and deposit its capitalization grants in this Account. When and if the State's undrawn grants are fully converted to cash (including its estimated FFY 2003 grants if awarded), approximately an additional \$36.7 million of funds will be deposited into the Restricted Subaccount, thereby increasing this balance to approximately \$481.1 million less the May 2002, \$3.1 million transfer (and a desired FFY 2003 grant transfer of \$3 million) to the Drinking Water SRF. (This amount excludes the unpaid balance on the State's only direct loan to the Town of Wanatah.) The State expects FFY 2003 grant to be awarded during SFY 2003 in the estimated amount of approximately \$30 million. Accordingly, this \$425.2 million amount represents lesser of (a) maximum projected balance in the Restricted Subaccount in SFY 2003 (approximately \$481.1 million less \$6.1 million of transfers to the Drinking Water SRF) and (b) Maximum Projected Excess Commitments in SFY 2003 (\$486.3 million) less the Unrestricted Subaccount balance (\$61.1 million).

<sup>13</sup> This amount represents 4% of all grants (including 4% of the FFY 2003 Capitalization Grant in an estimated amount of \$30 million, estimated to be about \$20.3 million), after reduction by (1) administration expenses paid from the SRF as of May 1, 2002 and (2) amounts held in the Wastewater Administration Account as of May 1, 2002.

	<i>Amounts Held as Security &amp; Source of Payment for Program Bonds Totaling \$402 million</i>	
Restricted Subaccount (Use #3)	These funds are held and used as security and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f). Further, they will serve a similar used for additional Guarantee Revenue Bonds expected to be issued in SFY 2003.	\$366.3 million <sup>14</sup>
Guarantee Reserve Account	These funds serve the uses set out under the Restricted Subaccount (Use #3) above.	\$25.6 million
State Match Loan Subaccount (Use #2)	These funds serve the uses set out under the Restricted Subaccount (Use #3) above.	\$5.3 million
Bond Reserve Account	These funds are held and used as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35. 3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively.	\$4.8 million

\* Amounts are approximate and subject to change at the discretion of the State as permitted by law. Unless otherwise stated, amounts reflect estimated amounts as of May 1, 2002.

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<sup>14</sup> Pursuant to its financing indentures related to its outstanding Program Bonds, the State is presently required to maintain reserves of at least \$402 million. This amount represents \$402 million less the amounts shown in the Guarantee Reserve Account, the State Match Loan Subaccount (Use #2), and the Bond Reserve Account). In aggregate they meet this minimum invested funds requirement. However, the State views invested amounts in excess of the foregoing minimum requirement as security and as a source of payment for the outstanding Program Bonds. Further, the State expects that the foregoing minimum requirement will increase as additional Program Bonds are issued in SFY 2003 and beyond.

### Summary of Restricted Subaccount Projected Needs

The following summarizes the projected needs for each of uses of the Restricted Subaccount. Based upon these needs, the State demonstrates that existing balances are not sufficient to meet all of needs. The State expects to cause additional Guarantee Revenue Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed (that is, the Excess Commitments) and those anticipated to be closed in SFY 2003. By this summary and the foregoing expectation, the State demonstrates it is using all of the funds in the Restricted Subaccount in an expeditious and timely manner.

Description of the Use and Related Need	Projected needs by use as of June 30, 2002:	Maximum projected needs by use in SFY 2003:
<i>Use #1-- Excess Commitments</i>	\$-0- million <sup>15</sup>	\$425.2 million <sup>16</sup>
<i>Use #2-- Administrative Costs</i>	\$9.7 million	\$9.7 million
<i>Use #3 -- Reserves</i>	\$366.3 million <sup>17</sup>	\$402 million <sup>18</sup>
Total	\$376.0 million <sup>19</sup>	\$799.2 million <sup>20</sup>

<sup>15</sup> This need is fully met by the present allocation of the unrestricted subaccount. Excess Commitments as of June 30, 2002 are projected to be \$39.0 million. However, after accounting for \$39.0 million held in the Unrestricted Subaccount, none of this need, as of June 30<sup>th</sup> needs to be met by this account.

<sup>16</sup> Total projected Excess Commitments (\$486.3 million) less amount held in the Unrestricted Subaccount (\$61.1 million). Accordingly, as additional funds are deposited in the Restricted Subaccount in SFY 2003, such funds would be allocated to Use #1 (or a portion of Use #1 would have to be funded through the issuance of additional Program Bonds).

<sup>17</sup> Together with the amounts identified as the uses of the Guarantee Reserve Account, the Bond Reserve Account, and the State Match Loan Subaccount (Use #2), this totals the State's required Invested Funds Balance (\$402 million) under its financing indentures.

<sup>18</sup> This balance does not reflect the additional legitimate uses represented by (a) the expected increase in reserves required upon the issuance of additional Guarantee Revenue Bonds in SFY 2003 or (b) the maintenance of reserves in excess of the minimum requirements of the State's financing indentures. The State reserves the right to allocate resources for these purposes.

<sup>19</sup> These projected needs nearly equals the available amounts in this account without considering expected lending activity in SFY 2003; the balance in the Restricted Subaccount as of May 1, 2002 was about \$444.4 million before \$6.1 million of transfers to the Drinking Water SRF.

<sup>20</sup> These projected needs exceed the total projected available balance in SFY 2003 after all grants through and including FFY 2003 are converted to cash and deposited in the Restricted Subaccount. Accordingly, it would be contemplated that a substantial portion of Use #1 would in any event have to funded through the issuance of additional Program Bonds.

## **SCHEDULE 1**

### **SRF INVESTMENT AGREEMENTS**

Funds held in the Restricted Subaccount and certain other accounts are invested in the following Investment Agreements which mature and may be terminated at the State's option as follows:

Investment Agreement with:	Final Maturity Date <sup>21</sup>	Optional Termination Date <sup>22</sup>	Scheduled Repayments of Invested Amounts <sup>23</sup>
AIG Financial Products (Jersey) Ltd., dated January 21, 1993	2/1/15	N/A	\$2.5 to \$3.3 million
AIG Financial Products (Jersey) Ltd., dated March 24, 1994	2/1/16	N/A	\$1.2 to \$1.7 million
AIG Financial Products (Jersey) Ltd., dated February 7, 1995	2/1/17	N/A	N/A
AIG Financial Products (Jersey) Ltd., dated September 30, 1997	2/1/19	2/1/05	N/A
AIG Matched Funding Corp., Dated, September 29, 1998	2/1/20	2/1/10	\$1.3 to \$5.7 million
Salomon Reinvestment Co. Inc., Dated, April 25, 2000	8/1/22	8/1/05	\$2.5 to \$8.9 million
Trinity Plus Funding Company, LLC, Dated January 9, 2001	8/1/23	8/1/10	\$0.1 to \$18 million
AIG Matched Funding Corp., Dated, November 14, 2001	2/1/23	N/A	\$0.8 to \$10 million

The State has structured these Investment Agreements in a manner to assure as great as flexibility as practical to serve the variety of needs required by the SRF. The long-term nature of these investments assures long-term access to quality investment sources and, thereby, balances revenue certainty against known debt obligations associated with Program Bonds. This fosters the ability to issue additional Program Bonds to fund a prudent, maximum level of leveraged loans. Further, repayment features are consistent with the reserve purposes associated with most of these invested funds. Finally, the optional termination dates and scheduled repayment features associated with these Investment Agreements, in total, assure access to invested balances at reasonable intervals and are expected to facilitate future leveraged bond issues.

<sup>21</sup> If not repaid sooner, all invested sums are required to be repaid to the State by this date.

<sup>22</sup> On or after this date, the State may terminate the investment at its option and in all invested sums will then be required to be repaid to the State.

<sup>23</sup> Each February 1 (except for the 2000 & the first 2001 Investment Agreements, which is each August 1), commencing in 2002 (except for the 2000, the first 2001 and the second 2001 Investment Agreements, which is 2003, 2019, & 2004, respectively), a portion of the invested sums is required to be repaid annually to the State. These annual amounts are set out in a schedule to each agreement and range within the amounts shown in this column.

## APPENDIX E

### Ranking and Scoring System for Nonpoint Source SRF Projects

#### A. Summary of State's Water Quality Problems

1. The SRF program developed its Nonpoint Source SRF program by following the State's Nonpoint Source (NPS) Assessment and Management Plan. This document details what a nonpoint source project is and how such a project might be eligible for funding through the SRF program. The following are origins of nonpoint source pollution and its potential impacts to the State:

**Agricultural activities** introduce pesticides, phosphorus, pathogens, and sediment to water bodies via eroding land surfaces and runoff. Although best management practices (BMP) are increasingly being implemented to control erosion, among other water quality problems, many streams and lakes in Indiana are still in violation of water quality standards.

**Animal production** operations and feedlots contribute pathogens, nitrogen, phosphorus, salts, and other nutrients to water bodies from animal excrement, waste water, and spilled feed. Microorganisms and nitrates associated with animal production byproducts can contaminate water supply wells.

**Streambank erosion** contributes to habitat degradation in watersheds. Water resources can be disrupted by habitat degradation significantly by runoff containing pollutants.

**Land development** is the source of increased sediment, habitat degradation, and urban runoff. Construction activities can strip sites of vegetation and expose soil, resulting in accelerated erosion and sediment loading. Increased runoff due to development also promotes flooding, destabilizes stream banks, and alters natural water courses.

**On-site sewage disposal units** such as septic systems can contribute nutrients and pathogens to water bodies when they malfunction. Site selection for septic systems is a major challenge in Indiana because over 70% of the State's soils are unsuitable for the operation of gravity flow subsurface trench systems. Improper site selection for septic systems can result in the leaching of nutrients and pathogens into groundwater and surface water.

**Landfill design, monitoring, and upgrades** while protecting groundwater can be challenging. Water quality correction and treatment can be obtained by closing landfill, constructing new landfills and leachate treatment facilities, and monitoring and controlling existing landfills.

## B. Description of Indiana's Water Quality Priorities

- The **Unified Watershed Assessment**, a requirement of the Clean Water Action Plan of 1997, is a multi-agency effort to prioritize watershed restoration needs in each state and tribe. Indiana's assessment targeted 11 eight-digit hydrologic units for restoration funding during 1999-2002. These watersheds are Little Calumet-Galien, Kankakee, Iroquois, St. Joseph-Lake Michigan, St. Marys, Wildcat, Upper White, Eel-Big Walnut, Lower White, Patoka, Middle Ohio-Laughery, and Highland-Pigeon.

The Nonpoint Source SRF Program will work with Indiana's 319 Watershed Management Program in addressing each watershed's public health and water quality priorities. This group has the data and has developed a score, based on resource concerns and stressors, for each of the 361 eleven-digit hydrologic units throughout Indiana for restoration funding during 1999-2000. Examination of the human activities that impact the ecosystem will help planners focus on those areas where restoration may be most critical. This focus should also lead to more effective allocation of resources for restoration and protection activities.

## C. Types of Nonpoint Source Projects and Priority Ranking System

### I. Types of Fundable Activities

#### **Septic Systems**

- **Individual sewage treatment systems** - repairing failing farm and rural septic systems are eligible because failing systems impact water quality. Assistance will be made to property owners to finance the site evaluation, design, installation, repair, and replacement of individual sewage treatment systems on private property.
- **Septage Hauling Facilities.** Facilities could be constructed and operated by municipalities/RSDs to receive septage from haulers for pre-treatment before entering POTWs. Currently many communities will not accept septage from haulers.

**Wetland Protection.** This category includes wetland mitigation banks, wetlands protection measures, restoration, as well as constructed wetlands and BMPs to protect wetlands from runoff due to development.

**Structural and Non-Structural Erosion Control Practices** - can include any best management practice, as defined in Indiana's Nonpoint Source Management Plan, which controls soil erosion through vegetative or structural means.

### **Agricultural Activities**

- **Conservation Tillage Practices** - sedimentation to rivers and lakes is a primary, high priority water quality problem. Conservation tillage is the most cost effective means of reducing sediment, as well as nutrient loading, to surface waters. Implementing conservation tillage practices on a single farm can reduce runoff, erosion and nutrient loss from hundreds of acres. The equipment funded will generally include: cultivators, planting equipment, and seed bed preparation equipment, plows, rippers, and other conservation tillage equipment. While the Department recognizes conservation tillage to be an effective method to reduce erosion, it is recommended that conservation tillage equipment not be a dominant part of a projects' agricultural best management practices.
- **Agricultural Waste Management Systems** - can include replacement/upgrade of manure holding basins, pits, or tanks; manure handling, spreading or incorporation equipment; and feedlot improvements such as clean water diversions around feedlots or berms and chutes to contain and direct contaminated runoff into holding basins. Manure handling and spreading equipment could also be funded under this category.

### **Landfill Activities**

- **Landfill Construction and Remedial Activities** - construction of facilities to collect, convey and /or treat leachate and runoff from new publicly owned landfill cells or from sites that are known to contain contaminated or hazardous materials.
- **Landfill Closure, Land Acquisition and Conservation, and Well Sealing** - construction of measures to prevent and control pollutants/leachate from entering groundwater at non-operating municipal landfill sites for wells (drinking and monitoring). Also included in this category are land acquisition and conservation projects that are associated with water quality benefits.

**Conservation Easements.** Loans would be made for land purchases or conservation easements that have some basis for water quality protection.

**Storm Water Phase II BMPs.** The Indiana Municipal Separate Storm Sewer System program (MS4) will require communities to implement Best Management Practices (BMPs) and control measures to treat storm water. These include devices, methods, or systems designed to reduce, store, treat, separate, stabilize, or dispose of storm water for the purposes of preventing or abating pollution or **maintaining or improving water quality**.

## **II. Indiana's Nonpoint Source Ranking and Scoring System**

The SRF Nonpoint Source Program ranks all projects according to the total number of ranking points each project type receives and subsequently places each project on the

Project Priority List according to their ranking. The projects with the higher number of points rank above those with lessor points. Points will be awarded based on four categories:

- Project Integrity
- Watershed Assessment Report Ranking
- Water Quality Assessment Report Ranking
- Whether the watershed currently has an approved watershed plan

#### A. Nonpoint Source Project Scoring System

1. Does the project address a <b>water quality need?</b> (check “Yes” or “No”)	YES	NO
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- If “YES”, go to the **Water Quality Assessment Causes/Sources of NPS**, check each “Yes” answer that the proposed project will address.
- If “NO”, go directly to the **Project Integrity** section.

2. Project will address these <b>Water Quality Assessment Causes/Sources of NPS</b>		Points
YES	E.coli as a cause	15
YES	Pesticides as a cause	10
YES	Nutrients as a cause	5
YES	Agriculture/crop-related/livestock as a source	15
YES	Failing septic as a source	10
YES	Urban runoff as a source	5
YES	Unknown	1

3. Project impacts an impaired waterbody as defined by <b>303(d)/TMDL list?</b>	YES	NO
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<b>4. Project Integrity</b>	<b>Points</b>
Project addresses a water quality need.	<b>50</b>
Project addresses a risk to public health or the environment.	<b>50</b>
Project is a component of TMDL or watershed implementation plan.	<b>50</b>
Project is an efficient/effective method to achieve water quality goals.	<b>25</b>
Appropriate entities involved in a comprehensive, integrated manner.	<b>20</b>
Project provides a monitoring plan to measure water quality impacts.	<b>20</b>
Project is located near a "Threatened" waterbody or aquifer.	<b>15</b>
Project provides the technical and administrative capability to manage the loan and the project.	<b>10</b>
Project has a maintenance plan agreement for continued operation of the Projector activities for: <div style="margin-left: 100px;">             a) 10 years or greater              b) 5 years or greater but less than 10 years              c) less than 10 years           </div>	<b>5</b> <b>3</b> <b>1</b>
Project does not address a water quality problem	<b>0</b>

<b>5. Approved Watershed Management Plan</b>	<b>Yes</b>	<b>No</b>
Points	<b>50</b>	<b>0</b>

**6. Community's Median Household Income/Population****Yes?****Points**

Median Household Income greater than ( $>$ ) \$31,242 per year		<b>2</b>
Median Household Income less than or equal to \$31,242 but greater than \$24,994 per year		<b>4</b>
Median Household Income not more than \$24,994 per year		<b>6</b>
Community Population less than ( $\leq$ ) 10,000		<b>5</b>
Community Population less than ( $<$ ) 100,000 but greater than ( $>$ ) 10,000		<b>3</b>
Community Population greater than ( $>$ ) 100,000		<b>0</b>

\*Total points from each category are added to give a total score for each NPS project.

\*The assessment score of each watershed will be utilized in cases of ties in priority points, in which case a project in the watershed with the highest assessment score will be selected.

\* In cases where a NPS project spans more than one watershed, the assessment scores will be averaged to reach a total score.

\* Rural communities are weighted higher than larger communities. The NPS SRF program wants to cover the population gap left from the Phase I Stormwater communities (population  $>$  100,000). Most of these communities would be picked up by a wastewater treatment plant. Therefore, the NPS SRF program could be feasible for the Phase II Stormwater (population  $>$ 10,000 but  $<$ 100,000) communities, too.

